

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Mendocino Coast Clinics, Inc. ("MCC") 205 South Street Fort Bragg, CA 95437</p> <p>Project Site: 855 Sequoia Circle, Fort Bragg, CA 95437, Mendocino County</p> <p>Facility Type: Community Clinic</p> <p>Prior HELP II Borrower: Yes. Paid in full.</p>	<p>Amount Requested: \$475,000</p> <p>Requested Loan Term: 15 years</p> <p>Date Requested: July 31, 2008</p> <p>Resolution Number: HII-224</p>																
<p>Background: MCC was established as a community clinic in the 1970's to provide free health care to residents of Mendocino County and surrounding areas. Today, MCC continues its mission of providing quality medical, dental, and behavioral health care services to all coastal residents regardless of their ability to pay. MCC is designated as a Federally Qualified Health Center.</p>																	
<p>Uses of Loan Proceeds: Loan proceeds will be used to refinance an 8% fixed rate loan financed by Gallo Brothers Inc. that was used to purchase real property located at 855 Sequoia Circle, Fort Bragg, CA. With the proposed financing, MCC will save approximately \$226,635 in interest savings over the life of the loan.</p>																	
<p><u>Financing Structure</u></p> <ul style="list-style-type: none"> • 15-year fixed rate loan. • 180 equal monthly payments of approximately \$3,280 (yearly payments of about \$39,363). • Gross revenue pledge. • First lien position on real property located at 855 Sequoia Circle, Fort Bragg, CA. • Loan to value ratio not to exceed 95% (estimated loan to value ratio of 47%). 																	
<p>Financial Overview: MCC's income statement appears to exhibit a positive trend in total revenue supported by an increase in demand for services. MCC appears to have significantly increased its assets, while decreasing total liabilities over the review period. The proforma debt service coverage ratio for the proposed HELP II loan is a satisfactory 1.93x.</p>																	
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u>Sources of Funds</u></th> <th colspan="2" style="text-align: left;"><u>Uses of Funds</u></th> </tr> </thead> <tbody> <tr> <td style="width: 30%;">HELP II Loan</td> <td style="width: 20%; text-align: right;">\$475,000</td> <td style="width: 30%;">Refinance Existing Debt</td> <td style="width: 20%; text-align: right;">\$467,000</td> </tr> <tr> <td></td> <td></td> <td>Financing Costs</td> <td style="text-align: right;">8,000</td> </tr> <tr> <td style="text-align: right;">Total Sources</td> <td style="text-align: right;"><u>\$475,000</u></td> <td style="text-align: right;">Total Uses</td> <td style="text-align: right;"><u>\$475,000</u></td> </tr> </tbody> </table>		<u>Sources of Funds</u>		<u>Uses of Funds</u>		HELP II Loan	\$475,000	Refinance Existing Debt	\$467,000			Financing Costs	8,000	Total Sources	<u>\$475,000</u>	Total Uses	<u>\$475,000</u>
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																	
<p>Staff Recommendation: Staff recommends approval of a HELP II loan for Mendocino Coast Clinics, Inc. in an amount not to exceed \$475,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.</p>																	

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

July 31, 2008

Mendocino Coast Clinic, Inc. ("MCC")

Resolution Number: HII-224

I. PURPOSE OF FINANCING

***Refinance Existing Debt* \$ 467,000**

MCC intends to payoff a mortgage which was used to purchase the facility located at 855 Sequoia Circle, CA. MCC received a \$250,000 Community Clinic Grant which was used as a down payment for the property and financed the remaining balance of \$480,000 with Gallo Brothers, Inc. in August 2007. The current interest rate of the loan is 8% per annum with an outstanding balance of approximately \$467,000. MCC will save nearly \$226,635 in interest over the life of the loan. In addition, MCC will reduce their monthly payment from approximately \$4,000 to \$3,280 and it will also reduce their loan term from 30 years to 15 years.

According to MCC's management, the current market value of the property is approximately \$1 million, leading to a loan to value ratio of 47%. MCC is in the process of having the property appraised, which must satisfy the Authority's policy regarding the loan to value ratio of 95%.

***Financing Costs* 8,000**

Authority Fees.....5,938
Title/Escrow.....2,062

***Total Uses of Funds* \$ 475,000**

II. FINANCIAL STATEMENTS AND ANALYSIS

Mendocino Coast Clinics, Inc. Statement of Activities (Unrestricted)

	For the Year Ended June 30		
	2007	2006	2005
Support & Revenue			
Patient service revenue	4,199,453	4,187,675	3,388,849
Grant revenue	1,242,506	993,399	1,316,212
Other revenue	82,908	79,739	64,688
Total support & revenue	<u>5,524,867</u>	<u>5,260,813</u>	<u>4,769,749</u>
Expenses:			
Salaries and benefits	4,061,980	3,636,089	3,160,996
General and administrative	458,827	409,317	384,982
Supplies	201,449	214,807	216,826
Contractual medical services	212,810	380,031	360,714
Space costs	141,781	129,824	120,720
Depreciation	93,134	92,170	101,415
Interest	91,868	93,520	92,822
Insurance	49,969	47,186	40,404
Provisions for bad debts	30,586	40,973	19,585
Minor equipment costs	10,831	64,792	41,056
Pass-through grants	-	50,000	50,000
Total expenses	<u>5,353,235</u>	<u>5,158,709</u>	<u>4,589,520</u>
Change in unrestricted net assets	171,632	102,104	180,229
Unrestricted net assets, beginning of the period	791,905	689,801	509,572
Unrestricted net assets, end of period	<u>\$ 963,537</u>	<u>\$ 791,905</u>	<u>\$ 689,801</u>

Mendocino Coast Clinics, Inc.
Statement of Financial Position

	For the Year Ended June 30		
	2007	2006	2005
Assets:			
Current assets:			
Cash and cash equivalents	\$ 199,626	\$ 50,509	\$ 421,111
Patient account receivables, net	420,098	415,133	399,289
Third-party payor settlements	330,053	688,357	75,000
Grant receivables	90,836	20,713	85,899
Inventory	38,067	28,641	28,641
Other Assets	51,256	66,967	40,398
Total current assets	1,129,936	1,270,320	1,050,338
Property and Equipment	2,317,709	2,363,291	2,397,642
Total assets	3,447,645	3,633,611	3,447,980
Liabilities and Net Assets:			
Current liabilities:			
Accounts payable	\$ 116,159	\$ 382,533	\$ 91,977
Accrued liabilities	198,072	259,306	501,044
Deferred Revenue	108,231	8,713	9,847
Line-of-Credit	-	30,415	-
Long-term debt, current portion	50,974	53,745	161,745
Total current liabilities	473,436	734,712	764,613
Long-term debt, net of current portion	2,010,672	2,106,994	1,993,566
Total liabilities	2,484,108	2,841,706	2,758,179
Unrestricted net assets	963,537	791,905	689,801
Total liabilities and net assets	\$ 3,447,645	\$ 3,633,611	\$ 3,447,980

Financial Ratios:

	Proforma (a)			
	FYE June 30, 2007			
Debt service coverage (x)	1.93	2.45	1.13	1.23
Debt/Unrestricted Net Assets (x)	2.63	2.14	2.73	3.12
Current Ratio (x)	2.39	1.73	1.73	1.37
Margin	3.11%	1.94%	1.94%	3.78%

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

*Subsequent FY 2007, two new loans were financed, which is reflected in the Proforma Debt Service Coverage.

Financial Discussion – Statement of Activities (Income Statement)

MCC’ income statement appears to exhibit a positive trend in total revenue supported by an increase in demand for services.

MCC experienced increases in unrestricted revenue and unrestricted net assets over the review period. MCC attributes this growth from an increase in patient visits during the last three fiscal years. Similarly, there has been a corresponding increase of expenses in FY 2007 (4%) and FY 2006 (12%). Additionally, MCC plans to recruit an additional provider to meet its high demand for services as well as finding other funding sources to augment services.

Particular Facts to Note:

- In FY 2007, MCC had a successful year with unrestricted net assets of \$171,000. MCC experienced an increase in expenses with the largest increase in salaries and related personnel costs (12%). Patient visits increased from 37,292 in FY 2006 to 38,663 in FY 2007.
- In FY 2006, MCC expenses continued to rise as a result of: 1) increased staff; 2) renovations to the property located at 855 Sequoia Circle and 3) equipment purchased to furnish the newly renovated building. Additionally, the state Department of Health Services did not finalize the Prospective Payment System (PPS) rate, which caused MCC to rely on cash reserves to pay their expenses. The final PPS was established in July 2006.
- In FY 2005, the MCC Board of Directors opened a perinatal program when Mendocino Coast District Hospital was unable to provide these services. MCC experienced tremendous growth from the expansion of services, which shows in the increase in patient visits.

Financial Discussion – Statement of Financial Position (Balance Sheet)

MCC appears to have significantly increased its net assets, while decreasing total liabilities over the review period.

In 2007, MCC reported total unrestricted net assets of approximately \$964,000, a 22% increase from FY 2006. MCC appears to exhibit adequate and improving liquidity with a 2.39x current ratio. MCC improved its cash position from \$50,000 in 2006 to nearly \$200,000 in FY 2007. The existing debt service coverage also appears adequate at 2.45x. The proforma debt service coverage ratio remains adequate at 1.93x, indicating that MCC should be able to make loan repayments for the proposed HELP II loan.

III. UTILIZATION STATISTICS

**Clients Served/ (Patient Visits)
Fiscal Year Ended January 31**

	2007	2006	2005
Totals	6,556/ (38,663)	6,074/ (37,292)	5,295/ (32,914)

IV. ORGANIZATION

Background and Licensing

In the 1970's, a free health care clinic emerged in Mendocino to provide medical services to coastal residents, which later transitioned to the Mendocino County Public Health (MCPH). Incorporation papers were filed in 1992 and in 1994, MCC officially became a non-profit community health clinic, assuming operations from MCPH. Currently, MCC operates two facilities in Fort Bragg, providing care in a service area that runs along 50 miles of rural and geographically isolated portions of the northern California coast.

MCC offers a wide range of services that include: (1) preventive medical and dental care; (2) behavioral health counseling; (3) perinatal and family planning services and; (4) women's health screenings.

MCC continues its mission of providing quality medical, dental, and behavioral health care services to all coastal residents regardless of the ability to pay. MCC is licensed by the California State Department of Public Health as a Community Clinic and designated as a Federally Qualified Health Center.

V. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding* As of June 30, 2007</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing Long-Term Debt:			
USDA, 2002	\$1,715,594	\$1,563,477	\$1,563,447
USDA, 2002	381,464	346,040	346,040
City of Fort Bragg, 2005	122,625	101,185	101,185
Gallo Brothers, Inc. 2007*	480,000	-0-	-0-
NCB, 2007*	200,000	-0-	196,916
Proposed			
CHFFA HELP II, 2008		N/A	475,000
TOTAL DEBT		\$2,010,672	\$2,682,588

*Subsequent to the end of FY 2007 these loans were financed.

VI. DUE DILIGENCE

Due diligence has been completed with regard to the following items:

- Savings Pass Through: MCC has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): MCC has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION

Staff recommends approval of a HELP II loan for Mendocino Coast Clinics, Inc. in an amount not to exceed \$475,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.